CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 6, 2000

H.R. 3615
Rural Local Broadcast Signal Act

As ordered reported by the House Committee on Commerce on March 29, 2000

SUMMARY

H.R. 3615 would establish a loan guarantee program for certain companies to provide local television service to areas of the country that do not receive local television stations from satellite companies. The bill would authorize the Administrator of the Rural Utilities Service (RUS) at the Department of Agriculture to guarantee up to 80 percent of private loans authorized to be made to qualified borrowers. The bill would authorize the appropriation of amounts necessary for the costs of the loan guarantees for up to $1 billion of private borrowing, and associated administrative expenses. Qualifying loans would be payable in full within the lesser of 25 years or the useful life of the assets purchased. The authority to guarantee loans would be contingent upon future appropriation action and would expire on December 31, 2006.

Other provisions in the bill would direct the Federal Communications Commission (FCC) to allow certain television stations to file license applications, award rural cellular telephone licenses to selected entities, and conduct a study related to direct broadcast services. Finally, the bill would change the definition of satellite carriers under telecommunications law to include distributors of satellite television services, which would allow customers to receive distant network signals.

CBO estimates that implementing H.R. 3615 would increase discretionary spending by a total of $210 million over the 2000-2005 period, assuming appropriation of the necessary amounts. We estimate that provisions in section 11 regarding rural cellular licenses would reduce offsetting receipts (a form of direct spending) by about $1 million in 2001. The provision in section 14 that would redefine the term "satellite carrier" would have a negligible affect on collections and distributions made by the Copyright Office. Because H.R. 3615 would affect direct spending and receipts, pay-as-you-go procedures would apply. H.R. 3615 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For the purpose of this estimate, CBO assumes that H.R. 3615 will be enacted in fiscal year 2000 and that funds will be provided for its implementation each year. The estimated budgetary impact of H.R. 3615 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	6	196	2	2	2	2
Estimated Outlays	3	129	72	2	2	2
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	1	a	a	a	a
Estimated Outlays	0	1	a	a	a	a
CHANGES IN REVENUES						
Estimated Revenue Increase	0	a	a	a	a	a

a. Less than $500,000.

Spending Subject to Appropriation

CBO estimates that implementing the loan program authorized by this bill would cost $210 million over the 2001-2005 period, subject to appropriation of the necessary amounts. Under procedures established by the Federal Credit Reform Act of 1990, the subsidy cost of a loan guarantee is the estimated long-term cost to the government, calculated on a net present value basis (excluding administrative costs). We estimate that the loan guarantees provided under the bill would cost about 20 percent of the total amount borrowed—or $200 million, subject to appropriation of the necessary funds. The bill would authorize the Administrator of the RUS to charge fees, which could offset some of the subsidy costs, but this estimate assumes no such fees would be charged.

To prepare this estimate, CBO consulted with industry experts and investment analysts and examined the credit ratings of firms in the satellite television and related industries. The information on credit ratings is useful because different credit ratings reflect analysts' expectations of defaults. Based on this information, we assume that the rural television loans likely to be guaranteed under this bill would have a credit risk comparable to debt rated as "B" or "CCC," which typically have default rates ranging from about 30 percent to 45 percent, respectively.

In addition, CBO estimates that administering the loan program would cost about $5 million in 2000 and about $2 million in each subsequent year. The bill would require the Secretary of Agriculture to charge fees to offset some of the administrative costs. Based on the amount of fees collected under other federal credit programs, CBO expects the RUS would charge a 0.5 percent fee and collect $5 million in 2001.

Finally, H.R. 3615 would direct the FCC to conduct a study within 90 days after enactment on the compatibility of satellite and terrestrial services in the 12.2 gigahertz to 12.7 gigahertz band now used for direct broadcast services. According to the FCC, this study would cost about $500,000 in 2000. Under current law, the FCC is authorized to collect fees to cover costs related to its regulatory, enforcement, and other functions. Because such fees typically are assessed in June, the commission probably would be unable to offset this additional expense until the next billing cycle. Hence, assuming appropriation of the necessary amounts in 2000 and assuming the commission could collect the fees in 2001, CBO estimates that this provision would increase discretionary outlays by $500,000 in fiscal year 2000 but reduce outlays by a corresponding amount in 2001.

Direct Spending and Revenues

H.R. 3615 would designate certain companies for the award of cellular telephone licenses in three rural service areas: one in the Florida Keys, one in northeastern Pennsylvania, and one in southern Minnesota. These companies would be awarded the licenses within 90 days after enactment if they satisfy certain license requirements and agree to pay a fee within 18 months after receiving the licenses. For purposes of this estimate, CBO assumes that the companies would comply with these conditions, and we estimate that offsetting receipts from the fees would be about $1 million less than the amounts that would have been collected if the licenses were awarded through competitive bidding. (Offsetting receipts are a credit against direct spending.) Thus, this provision would increase direct spending by about $1 million in 2001.

Under current law, satellite carriers pay a monthly royalty fee for each subscriber to the U.S. Copyright Office for the right to retransmit distant network signals by satellite to certain subscribers for private home viewing. This fee is recorded on the budget as a governmental receipt (i.e., a revenue). The Copyright Office later distributes (without further appropriation) the fees with interest to those who own copyrights on the material retransmitted by satellite. Such fees are about $0.15 per subscriber per channel per month through December 31, 2004. H.R. 3615 would expand the definition of satellite carriers to include satellite distributors. This would allow some customers of such satellite distributors to receive distant network signals. Based on information from the satellite broadcast industry, CBO estimates that the additional royalty fees collected and subsequently distributed by the Copyright Office for such signals would be less than $500,000 a year over the 2000-2005 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	1	0	0	0	0	0	0	0	0	0
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3615 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments. These governments may experience some minimal benefits to the extent that they wish to file applications for televison translator stations and low-power television stations in rural areas. The bill would require the FCC to establish and announce an open filing period during which some applications could be filed.

PREVIOUS CBO ESTIMATES

On March 1, 2000, CBO transmitted a cost estimate for H.R. 3615, as ordered reported by the House Committee on Agriculture on February 16, 2000. That bill would authorize the RUS to guarantee 100 percent of the value of loans made for this purpose—up to $1.25 billion in private borrowing. It also would allow the government's guarantee to be subordinate to third-party financing. CBO estimated that implementing the Agriculture

Committee's version of H.R. 3615 would cost $365 million over the 2000-2005 period, subject to appropriation of the necessary funds.

On March 15, 2000, CBO transmitted a cost estimate for S. 2097, the Launching Our Communities' Access to Local Television Act of 2000, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on March 8, 2000. That bill would authorize the RUS to guarantee 80 percent of the value of loans made for this purpose—up to $1.25 billion in private borrowing. CBO estimated that implementing S. 2097 would cost $265 million over the 2000-2005 period, subject to appropriation of the necessary funds.

ESTIMATE PREPARED BY

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